

CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM BOARD OF ADMINISTRATION INVESTMENT COMMITTEE

MINUTES OF MEETING OPEN SESSION

October 17, 2005

The Investment Committee met on Monday, October 17, 2005 at the Holiday Inn, San Diego-On the Bay, 1355 Harbor Drive, San Diego, California.

The meeting was called to order at approximately 9:00 a.m. and the following members were present:

Charles Valdes, Chair
George Diehr, Vice Chair
Ron Alvarado
Philip Angelides, represented by Ted Eliopoulos
Marjorie Berte
Rob Feckner
Priya Mathur
Michael Navarro
Tony Oliveira
Kurato Shimada
Steve Westly, represented by Joy Higa

Investment Committee members excused: Robert F. Carlson Mike Quevedo, Jr.

Mark Anson noted that Anne Stausboll, Assistant Executive Officer, was not present as she was representing CalPERS at the annual National Association of State Investment Officers (NASIO) conference in Virginia.

AGENDA ITEM 2 - APPROVAL OF AGENDA

There were no changes to the agenda order.

AGENDA ITEM 3 – APPROVAL OF SEPTEMBER 2005 MEETING MINUTES

On **MOTION** by Ms. Berte, **SECONDED** and **CARRIED** that the September 19, 2005 Open Session minutes be approved as presented.

AGENDA ITEM 4a – REAL ESTATE, Responsible Contractor Annual Report

Mike McCook, Senior Investment Officer, and Bob Eberhardt, Portfolio Manager, presented the consolidated Responsible Contractor Annual Report for all Real Estate Equity Advisors and the Housing Program Partners for fiscal year 2004-2005.

The Committee accepted the informational report.

AGENDA ITEM 4b – REAL ESTATE, Equity Real Estate Leverage Policy

Mike McCook, Senior Investment Officer, and Bob Eberhardt, Portfolio Manager, presented the item. Nori Gerardo Lietz, Pension Consulting Alliance, was available to respond to questions from the Committee.

On **MOTION** by Mr. Eliopoulos, **SECONDED** and **CARRIED** to:

- Affirm that the Investment Committee previously approved the selective use of CalPERS guarantees on Lines of Credit or other financing vehicles when it is in CalPERS' economic benefit to do so and only when authorized by the Senior Investment Officer of Real Estate.
- 2. Establish an overall limit in the aggregate amount of CalPERS guarantees of the above type of debt instruments (exclusive of subscription facilities). These guarantees will not, in the aggregate, exceed 25% of the real estate portfolio target allocation.

AGENDA ITEM 5a – ALTERNATIVE INVESTMENT MANAGEMENT PROGRAM, AIM Strategic Review – Results and Recommendations

Mark Anson, Chief Investment Officer, and Leon Shahinian, Senior Investment Officer, presented the AIM 2005 Strategic Program Review which was prepared by Pension Consulting Alliance at staff's request. The review is a follow-up to the AIM 2000 Review performed by McKinsey & Co. The purpose of PCA's review is to evaluate AIM's progress relative to AIM 2000 and to reset strategies as appropriate. This process is designed to enhance AIM's overall capability, effectiveness, and long term performance as an investor in alternative investments and to further CalPERS' efforts toward being an investor of choice.

Allan Emkin and Mike Moy, Pension Consulting Alliance, responded to questions from the Committee.

Staff proposes to prepare and present a preliminary action plan based on the findings at the December 2005 Investment Committee meeting.

The Committee accepted the informational report.

AGENDA ITEM 6a – GLOBAL FIXED INCOME, Global Fixed Income Annual Plan

Curtis Ishii, Senior Investment Officer, and Warren Trepeta, Portfolio Manager, presented the item. The presentation included a macro-economic overview and a review of performance for each major program area, accomplishments for the fiscal year ending 2005, market conditions for the past fiscal year, and proposed goals for fiscal year 2005-2006 and their fixed income market outlook.

Roz Hewsenian, Wilshire Associates, was available to respond to questions from the Committee.

On **MOTION** by Ms. Berte, **SECONDED** and **CARRIED** to approve the 2005-2006 Global Fixed Income Annual Plan.

The meeting recessed from 10:15 to 10:30 a.m.

AGENDA ITEM 7a - GLOBAL EQUITY, Global Equity Annual Plan

Christy Wood, Senior Investment Officer, and Senior Portfolio Managers Eric Baggesen, Mary Cottrill, and Dennis Johnson presented the item.

The presentation included a report highlighting the performance of the various discrete segments of the asset class, the accomplishments of the 2004-2005 fiscal year, and action plans for the upcoming year.

On **MOTION** by Ms. Berte, **SECONDED** and **CARRIED** to approve the 2005-2006 Global Equity Annual Plan.

AGENDA ITEM 7b - GLOBAL EQUITY, PacifiCare - UnitedHealth Group Merger

Christy Wood, Senior Investment Officer, and Dennis Johnson, Senior Portfolio Manager, presented the item and summarized plans to date regarding the proposed merger. Staff concludes that the merger is a net positive based on the economics of the proposed transaction. There are issues of concern regarding corporate governance best practices and executive compensation.

On **MOTION** by Mr. Eliopoulos and **SECONDED** to direct staff to:

- 1. Oppose the executive compensation packages and to express concerns to the companies and urge them to unwind the compensation packages from the merger.
- 2. Write to the Department of Managed Health Care to urge them as part of their review of the merger to unwind the executive compensation packages.

There was a discussion including comments about:

- The proposed executive compensation packages accelerated stock options and cash bonuses.
- The impact to CalPERS as a healthcare purchaser.
- Added stock value since the announcement of the merger.
- Analysis of trends how do mergers perform over the long term?
- The impact of unwinding the executive compensation packages.

The motion **CARRIED**. Committee members Alvarado, Berte, Navarro, and Oliveira voted no.

The Chair directed Investment staff to work with Health staff to assess the costs of the merger on California consumers.

AGENDA ITEM 7c – GLOBAL EQUITY, Corporate Governance Internal Staff Working Group Update

There were no items to report.

AGENDA ITEM 8 - SUPPLEMENTAL SAVINGS PROGRAMS REPORT

Mark Anson, Chief Investment Officer, and Dave Mullins, Chief of Supplemental Savings Programs Division, presented the item.

The Supplemental Savings Programs Division (SSPD) became part of the Investment Office effective July 1, 2005. Previously, SSPD had reported to the Member Services Branch. As such, its quarterly reports to the Board were part of the Benefits and Program Administration Committee agenda. This item represents the first report of SSPD to the Investment Committee. Future quarterly reports will be included in the Investment Committee's Supplemental Reporting Document. The SSPD will be included as an element of the Investment Office Operations Annual Plan.

The Committee accepted the informational report.

AGENDA ITEM 9 - POLICY SUBCOMMITTEE REPORT

By consent the Committee approved the following:

- a. Equity Policies
 - Revision of Corporate Governance Fund Investment Vehicles Externally Managed
- b. Fixed Income Policies
 - 1) Revision of Active International Fixed Income Externally Managed
 - 2) Revision of Dollar Denominated Fixed Income Program

- c. Real Estate Policies
 - Revision of the Extended Market Public Real Estate Equity Securities (Extended Market PREES)
 - 2) Revision of Equity Real Estate
 - 3) Revision of International Equity Real Estate
- d. Administrative
 - 1) Revision of "Watchlist Status" Definition in Glossary
 - 2) Revision of "Shareholder" to "Shareowner"
 - 3) Proposed December 2005 Agenda
 - 4) Meeting Schedule 2006

AGENDA ITEM 10a – CHIEF INVESTMENT OFFICER'S / ASSISTANT EXECUTIVE OFFICER'S REPORT, Consolidated Investment Activity Report

Mark Anson, Chief Investment Officer, presented the item. He informed the Committee that CalPERS and CalSTRS have entered into a partnership with the UC Davis Graduate School of Management to place MBA students as interns. The purpose of the program is to attract top tier business students to careers in investment management and add to the diversity of the program.

The Committee accepted the Consolidated Investment Activity Report. The total market value of the fund as of August 31, 2005, was approximately \$196.0 billion and the total book value was approximately \$150.2 billion.

AGENDA ITEM 11 - DRAFT NOVEMBER 2005 AGENDAS

The Committee accepted the proposed November 14, 2005 agendas for the Investment Committee and the Board Diversity Workshop.

AGENDA ITEM 12 - PUBLIC COMMENT

There were no comments from the public.

The meeting was adjourned at 11:45 a.m.

The next meeting of the Committee is scheduled for November 14, 2005 in Sacramento, California.

FRED BUENROSTRO
Chief Executive Officer